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SUBJECT: PUNJAB AGRICULTURE OFFICIALS CRITICIZE PAKISTAN WHEAT  
POLICY

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11. (SBU) SUMMARY: Senior bureaucrats in the Punjab Ministry of Agriculture realize that government wheat policy endangers Pakistan's food security and perpetuates rural poverty and isolation, creating fertile ground for extremists. Despite the cost and corruption fueled by price supports and subsidies, programs such as the "two Rupee roti" have popular support, making it difficult to end such policies. END SUMMARY.

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GOVERNMENT INTERVENTION UNDERMINES FOOD SECURITY  
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12. (SBU) Punjab Food Secretary M. Ifran Elahi, Director General Agriculture (Extension and Agricultural Research) Dr. M. Anjum Ali, Punjab, and Chief Executive of the Punjab Agricultural Research Board (PARB) Dr. Mubarik Ali, told econoff in separate meetings that they believe that the federal government wheat price supports and import/export controls harm Punjab's overall agricultural production. While intended to improve farm-household incomes and to keep limited grain supplies in the country, all three officials said that government policy dissuaded farmers from diversifying crops; made them wary of global markets and risk in general; prompted farmers to rush to the market when the next price increase in the support price is implemented rather than when the market needs wheat; and encouraged smuggling whenever global wheat prices reached new highs, which decreases Pakistan's own food supply and increases the cost of ensuring sufficient food. As a result of these corrosive effects of the current wheat policy, all three believed that more open agricultural commodity markets would be more efficient and cost effective than current policies.

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GOVERNMENT WHEAT PURCHASING IS RIFE WITH CORRUPTION  
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13. (SBU) A. Ali and M. Ali asserted that the government purchasing institution further undermined the price support's intended purpose of increasing farm incomes. The Pakistan Agricultural Services and Storage Corporation (PASSCO) buys the vast majority of the wheat crop brought to market, and purchases the wheat at a fixed price for a season. A. Ali asserted that brokers exploit the distance and lack of infrastructure that farmers face when they bring their crop to market. The middlemen cajole farmers into selling wheat well below the government price and pocket the difference, less their own

expenses, when they sell to PASSCO. M. Ali claimed that PASSCO buyers often haggle with wheat sellers rather than paying the full government price, and skim the balance off for themselves. He thought that the appointment of a former general, Maj. Genl. (Ret'd) Anwar Saeed Khan, exacerbated the corruption. All three officials felt that storage, mechanized bulk handling, and other rural infrastructure improvements would be catalysts for higher yields, particularly if developed independently of the government.

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PUNJAB MILLS NEED CONSOLIDATION AND MODERNIZATION  
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14. (SBU) All three officials also condemned the state of Punjab's wheat mills, and laid the blame on government policy. Elahi and M. Ali both said that the federal fixed "release price" of wheat, and the provincial government policy of distributing wheat to mills based on capacity rather than population served or sales, effectively killed all profit incentives and competition. The mismatch has resulted in milling overcapacity and inefficiency. Elahi further asserted that these inefficiencies made flour more expensive, which adds to the cost of the government's flour subsidies. He also noted that mills game the timing of government price changes, and hoard supplies until prices increase. Elahi and M. Ali both alleged that politically powerful mill owners perpetuate this system.

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SASTI ROTI IS GOOD POLITICS BUT BAD ECONOMICS  
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15. (SBU) Elahi and A. Ali noted that farmers themselves consume or barter 65 to 75 percent of the wheat crop. Farmers, Elahi said, may be poor, "but they will not go to sleep on an empty

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stomach." Government policy has failed to improve crop production, and the limited surplus crop for market exposes poor urbanites to scarcity and inflation. Although Punjab Chief Minister Shahbaz Sharif implemented the "sasti roti" or "two Rupee roti" program to keep the price of Pakistan's staple bread low for the vulnerable urban poor, the scheme misses its target, Elahi and M. Ali both observed. All tandoors (bread makers) within certain areas receive subsidy payments, whether or not they and their customers need it. Moreover, as the price of flour goes up, the cost of the subsidy goes up. What began as a Rs 10 million per day social welfare program could balloon to Rs 24 million per day by mid April. Elahi called the program bad economics and bad food policy, but he also realized that ending the program could spark urban unrest. In fact, as an indication of its political significance, the press has reported that recently restored Punjab Chief Minister Shahbaz Sharif has floated the idea of implementing a "one Rupee roti" program.

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LACK OF CAPITAL HURTS YIELDS  
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16. (U) One issue elicited almost identical comments from all three officials: access to capital. All three argued that giving farmers access to capital to acquire seed, fertilizer, and other inputs on a timely basis could dramatically improve yields. Credit mechanisms could also alleviate farm household cash flow problems, easing the urgency to harvest and sell their crop whenever the government sets a new price. M. Ali noted that the rush to convert crops to cash also causes a cash flow problem for the Punjab government. All three officials supported similar programs that would give farmers relatively low-cost access to limited amounts of credit using little more than their potential crop as collateral. A. Ali also saw potential in such credit mechanisms to help establish cooperatives and drive rural development in general. A. Ali and M. Ali said that they have participated in specific programs experimenting with credit access.

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COMMENT: FREE MARKETS AND U.S. SUPPORT ARE THE WAY FORWARD  
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17. (SBU) COMMENT: The prescription offered by all three officials was similar: less government intervention, more open markets in agricultural commodities, and substantial U.S. aid for rural development and agricultural institutional capacity building. Elahi extolled the virtues of an expired USAID program that built bulk storage and handling facilities some twenty years ago. M. Ali believed that profit incentives can drive research, and he lauded the impact of U.S. support for agricultural education institutions, especially the University of Agriculture, Faisalabad. A. Ali saw potential for U.S. assistance in improving Punjab's agricultural extension services. U.S. aid in rural development is most welcome, according to these officials. Such support could go a long way to winning the hearts and minds of ordinary Punjabis, especially those in poor, rural areas prone to exploitation by extremists eager to entice followers with easy money. However, all three officials also cited the same obstacle to progress: politics. They seemed eager to find a way to make structural changes to Punjab's agricultural economy without having to go through politicians or the federal government. END COMMENT.  
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